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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED ORIGINAL

Problems In Implementing Regulatory Accounting And Costing Systems For Railroads

The Interstate Commerce Commission recently revised its regulatory accounting system and is in the midst of establishing a new costing system to develop information needed to judge rates for railroad services. GAO believes the Commission must do more to make sure that railroads implement the new accounting system correctly and that the new data is used effectively. GAO makes several recommendations to smooth the conversion process.

The Commission is considering making additional changes to its regulatory accounting and costing systems. However, if major new accounting and costing requirements are introduced too soon, the railroad industry could be burdened with complex and difficult reporting requirements which do not necessarily serve Federal regulatory needs.

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROBLEMS IN IMPLEMENTING REGULATORY ACCOUNTING AND COSTING SYSTEMS FOR RAILROADS

D I G E S T

Because the Interstate Commerce Commission prescribes regulatory accounting requirements for railroads and uses the accounting data railroads submit to judge the appropriateness of their rates, its actions and decisions can bear heavily on whether the railroads' financial viability improves.

Until recently, the Uniform System of Accounts for railroads had remained essentially unchanged since 1907. Effective January 1, 1978, the Commission prescribed a revised and expanded system which resulted from several years of developmental efforts and was required by the Railroad Revitalization and Regulatory Reform Act of 1976 (4-R act).

This act also required the Commission to develop a revised costing system for estimating the cost of service by using data railroads report under the revised system of accounts. The revised costing system--not yet in operation--is intended for use not only by the Commission but also by railroads and shippers in rate proceedings. Legislation has been introduced in the Congress, and passed in the Senate, which would place added importance on cost of service as a basis for setting rates in the railroad industry.

The Commission has much more to do to make the new accounting and costing requirements effective in meeting the objectives of the 4-R act.

Although railroads have begun reporting under the new uniform system of accounts, the Commission has not assured itself that the information being reported is reliable and consistent. For example, the Commission

--has not issued continuing guidance on how the system should be implemented, even though it is much more complex than the prior one and may not be well understood; and

--has made only limited audits of system implementation by the railroads, even though substantive Commission audits identified major problems at five railroads.

Furthermore, the revised costing system needed to develop estimates of railroad costs for regulatory and other purposes is not yet operational. Therefore, a major purpose of the 4-R act--to obtain more accurate railroad costs--may not be achieved for some time because

--the Commission will be testing the detailed processes of the system over the next several months to determine if modifications are necessary and

--the reliability of the results produced by the system will not be known until the Commission assures itself that the accounting information reported by railroads under the system of accounts is reliable.

Even after the Commission completes testing the detailed processes of the system and assures the reliability of the accounting information to be used, the revised costing system will not produce the best results until 1982 information is available because it is designed to use 3 to 5 years' information in some areas.

Until the revised costing system is operational, the only practical alternative for the Commission and others is to continue using a prior costing system, even though that system has disadvantages.

Although the new costing system is to replace a system which has been widely used by railroads, shippers, and others (e.g., rail consultants) in rate cases before the

Commission, the Commission has not assured itself that such entities will be able to use or understand the revised costing system.

The revised costing system has been designed to produce better cost estimates, but it is not possible at this time to predict whether users will view the results as better than the prior costing system or consider them even as acceptable.

The Commission is considering additional changes to its regulatory accounting and costing systems for railroads. However, if new major accounting and costing requirements are introduced too soon, the railroad industry could be burdened with complex and difficult reporting requirements which do not necessarily serve Federal regulatory needs.

The Interstate Commerce Commission should:

--Expeditiously review and evaluate railroads' implementation of the new Uniform System of Accounts to assure that the conversion processes used by railroads produce reliable accounting information and that adequate guidance on system implementation has been issued.

--Communicate to those outside the Commission the importance of the new costing system, its intended benefits, and its technical characteristics and limitations.

--Provide appropriate technical guidance to assist non-Commission users to understand and appropriately use the costing system's results.

--Delay implementation of a cost center accounting system until the system of accounts and associated costing system are effectively operational and their value can be judged.

COMMISSION COMMENTS AND GAO'S EVALUATION

In commenting on GAO's draft report, the Commission

--agreed with the need to review and evaluate railroads' implementation of the new system of accounts;

--agreed with the need to communicate with those outside the Commission about the revised costing system;

--did not address all areas of technical guidance, but said that they believed non-Commission users had or could obtain the data processing capabilities necessary to use the revised costing system; and

--said it was premature to discuss a delay in the implementation of the cost center system.

GAO recognizes that the Commission has plans to review and evaluate railroads' implementation of the new system of accounts, but believes that the Commission needs to do more to assure that the new system of accounts is implemented properly. Also, GAO recognizes that the Commission has begun to explore the data processing needs of prospective non-Commission users, but GAO believes that--in addition to resolving data processing issues--the Commission should assure itself that prospective users have other technical guidance adequate to use and understand the revised costing system. Lastly, GAO believes that the timing of the cost center system implementation needs to be considered.

The Commission's comments and GAO's evaluation are discussed in detail at the end of chapters 2, 3, and 4.

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ABBREVIATIONS

GAO	General Accounting Office
USOA	Uniform System of Accounts
URCS	Uniform Rail Costing System
4-R act	Railroad Revitalization and Regulatory Reform Act of 1976